

CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

Community Foundation of Northwest Indiana, Inc. and Subsidiaries
Years Ended June 30, 2007 and 2006
With Reports of Independent Auditors

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Consolidated Financial Statements and Other Financial Information

Years Ended June 30, 2007 and 2006

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Report of Independent Auditors

The Board of Directors
Community Foundation of Northwest Indiana, Inc.

We have audited the accompanying consolidated balance sheets of Community Foundation of Northwest Indiana, Inc. and Subsidiaries (CFNI) as of June 30, 2007 and 2006, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of CFNI's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of CFNI's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CFNI's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Community Foundation of Northwest Indiana, Inc. and Subsidiaries at June 30, 2007 and 2006, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As described in Note 2, CFNI has restated its financial statements for the year ended June 30, 2006, related to its method of accounting for investments.

As described in Note 8, CFNI adopted Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined-Benefit Pension and Other Postretirement Plans*.

Ernst & Young LLP

September 24, 2007

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Consolidated Balance Sheets

	June 30	
	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 37,358,948	\$ 36,632,291
Assets limited as to use internally designated	109,284,732	53,963,262
Patient accounts receivable, less allowances for uncollectible accounts (\$19,380,538 in 2007 and \$18,458,000 in 2006)	88,838,447	97,073,109
Inventories	12,290,199	12,012,252
Estimated settlements due from third-party payors	19,912,936	21,408,666
Prepaid expenses and other assets	9,618,156	6,637,302
Total current assets	277,303,418	227,726,882
Assets limited as to use:		
Internally designated	6,630,778	5,163,927
Externally designated	85,640,789	17,749,284
Deferred costs	7,898,873	7,359,286
Acquisition costs of initial residency agreements	106,218	287,893
Prepaid pension cost	—	602,017
Land, buildings, equipment, and construction- in-progress, net	342,975,030	350,344,461
 Total assets	 <u>\$ 720,555,106</u>	 <u>\$ 609,233,750</u>

	June 30	
	2007	2006
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 19,422,049	\$ 20,010,991
Accrued expenses	56,024,468	50,077,362
Contracts payable	24,086	68,177
Estimated settlements due to third-party payors	5,042,354	4,995,559
Current portion of capital leases	1,919,185	1,906,502
Current portion of notes payable	7,241,430	7,127,141
Current portion of long-term debt	3,864,632	2,604,996
Total current liabilities	93,538,204	86,790,728
Capital leases, less current portion	3,447,365	5,125,112
Notes payable, less current portion	9,805,164	17,273,549
Long-term debt, less current portion	318,483,799	217,710,539
Interest rate swap	240,969	93,192
Deferred revenue from advance fees	15,589,651	15,013,392
Pension liability	17,553,426	—
Asset retirement obligation	745,080	709,488
	365,865,454	255,925,272
Minority members interest in subsidiaries	7,106,980	6,761,586
Total liabilities	466,510,638	349,477,586
Net assets:		
Unrestricted	252,678,625	258,071,427
Temporarily restricted	1,263,497	1,684,737
Permanently restricted	102,346	—
Total net assets	254,044,468	259,756,164
Total liabilities and net assets	\$ 720,555,106	\$ 609,233,750

See accompanying notes to consolidated financial statements.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Consolidated Statements of Operations and
Changes in Net Assets

	Year Ended June 30	
	2007	2006
		(Restated)
Revenue		
Net patient and resident service revenue	\$ 586,478,201	\$ 563,714,255
Capitation program revenue	21,180,956	13,388,045
Other	17,727,384	19,311,609
Total operating revenue	625,386,541	596,413,909
Expenses		
Salaries	243,307,507	231,859,975
Employee benefits	59,593,182	57,787,005
Medical fees	4,415,181	4,653,876
Medical and other supplies	124,774,329	122,583,333
Outside services	46,183,305	42,341,726
Interest	14,457,201	15,206,327
Provision for uncollectible accounts	22,496,744	22,395,797
Depreciation and amortization	41,470,371	39,942,952
Impairment of goodwill	—	2,075,406
Loss on early extinguishment of debt	5,610,813	595,684
Other	54,022,524	46,396,402
Total expenses	616,331,157	585,838,483
Operating income	9,055,384	10,575,426
Nonoperating		
Investment income	6,430,998	4,384,056
Net change in unrealized gain (loss) on investments	64,938	(1,651,928)
Change in fair value of interest rate swap	(147,777)	(93,192)
Total nonoperating	6,348,159	2,638,936
Revenue in excess of expenses before adjustment for minority members interest in net income of subsidiaries	15,403,543	13,214,362
Adjustment for minority members interest in net income of subsidiaries	(5,174,495)	(4,361,293)
Revenue in excess of expenses	10,229,048	8,853,069

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Consolidated Statements of Operations and
Changes in Net Assets (continued)

	Year Ended June 30	
	2007	2006
		(Restated)
Unrestricted net assets		
Revenue in excess of expenses	\$ 10,229,048	\$ 8,853,069
Minimum pension liability adjustment	—	5,258,127
Adjustment to initially apply recognition provisions of SFAS No. 158	(16,222,862)	—
Net change in ownership interest	39,682	1,973,411
Net assets released from restrictions used for capital purposes	561,330	437,742
Increase (decrease) in unrestricted net assets before cumulative effect of change in accounting principle	(5,392,802)	16,522,349
Cumulative effect of change in accounting principle	—	(189,282)
(Decrease) increase in unrestricted net assets	(5,392,802)	16,333,067
Temporarily restricted net assets		
Restricted contributions	1,208,725	1,492,389
Investment income	9,601	11,723
Net assets released from restrictions used for operating and capital purposes	(1,639,566)	(1,210,911)
(Decrease) increase in temporarily restricted net assets	(421,240)	293,201
Permanently restricted net assets		
Restricted contributions	102,346	—
Increase in permanently restricted net assets	102,346	—
(Decrease) increase in net assets	(5,711,696)	16,626,268
Net assets at beginning of year	259,756,164	243,129,896
Net assets at end of year	\$ 254,044,468	\$ 259,756,164

See accompanying notes to consolidated financial statements.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended June 30	
	2007	2006
		(Restated)
Operating activities		
Change in net assets	\$ (5,711,696)	\$ 16,626,268
Cummulative effect of change in accounting principle	17,553,426	189,282
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Provision for uncollectible accounts	22,496,744	22,395,797
Depreciation and amortization	41,470,371	39,942,952
Loss on early extinguishment of debt	5,610,813	595,684
Change in fair value of interest rate swaps	147,777	93,192
Restricted contributions and gains on investments, net of assets released from restrictions used for operations	318,894	(293,201)
Amortization of admission fees	(671,980)	(561,328)
Advance fees and deposits received	1,248,239	1,738,328
Changes in operating assets and liabilities:		
Assets limited as to use	(124,679,826)	2,828,865
Patient accounts receivable	(14,262,082)	(30,155,513)
Estimated settlements due from/to third-party payors	1,542,525	(3,114,393)
Inventories, prepaid expenses and other assets, and prepaid pension costs	(2,656,784)	31,926
Accounts payable, accrued expenses, asset retirement obligation, and other current liabilities	5,349,665	(1,902,102)
Net cash provided by (used in) operating activities	(52,243,914)	48,415,757
Investing activities		
Purchases of land, buildings, equipment, and construction-in-progress	(33,547,399)	(46,160,432)
Change in acquisition cost of initial residency agreements	181,675	181,678
Net cash used in investing activities	(33,365,724)	(45,978,754)

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (continued)

	Year Ended June 30	
	2007	2006
		(Restated)
Financing activities		
Borrowings on notes payable and capital leases	\$ 22,769,792	\$ 42,808,836
Proceeds from issuance of long-term debt	162,520,212	22,525,000
Payment of long-term debt	(60,487,316)	(28,284,166)
Payment of notes payable and capital leases	(31,788,952)	(40,830,378)
Payment of deferred costs	(6,703,941)	(1,119,174)
Net transfer from (for) minority member	345,394	(68,606)
Proceeds from restricted contributions and gains on investments, net of assets released from restrictions	(318,894)	293,201
Net cash provided by (used in) financing activities	<u>86,336,295</u>	<u>(4,675,287)</u>
Net increase (decrease) in cash and cash equivalents	726,657	(2,238,284)
Cash and cash equivalents at beginning of year	36,632,291	38,870,575
Cash and cash equivalents at end of year	<u>\$ 37,358,948</u>	<u>\$ 36,632,291</u>

See accompanying notes to consolidated financial statements.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Years Ended June 30, 2007 and 2006

1. Organization

Community Foundation of Northwest Indiana, Inc. (CFNI) is the sole member of Munster Medical Research Foundation, Inc. – The Community Hospital, St. Catherine Hospital, Inc., St. Mary Medical Center, Inc., Community Hospital Cancer Research Foundation, Inc., Ridgewood Arts Foundation, Inc. (RAF), and CVPA Holding Corporation. The Community Hospital, CFNI, St. Mary Medical Center, Inc., and St. Catherine Hospital, Inc. comprise the members of the Community Foundation of Northwest Indiana Obligated Group (Obligated Group). CFNI and RAF are shareholders of capital stock issued by Community Resources, Inc. (CRI), a for-profit taxable entity. The hospitals provide inpatient, outpatient, and emergency care services to residents within their geographic region.

Prior to May 2006, CFNI and St. Margaret Mercy Healthcare Centers, Inc. (St. Margaret) were the sole members of Community Village, Inc. (CVI) with membership interests of 60% and 40%, respectively. In May 2006, CFNI purchased St. Margaret's 40% member interest in CVI in exchange for \$7.8 million. The transaction was accounted for as a purchase, and \$2,075,406 of goodwill was written off in conjunction with the transaction.

The Community Surgery Center LLC (CSC) was formed on May 1, 1998, for the purpose of owning and operating an ambulatory surgery center that provides medical, management, and administrative support for licensed physicians to perform nonemergency surgical procedures on an outpatient basis. CSC is a limited liability corporation that is owned by CFNI (35% at June 30, 2007, and 39% at June 30, 2006) and physician investors (65% at June 30, 2007, and 61% at June 30, 2006). CFNI consolidates CSC, as CFNI owns a majority of the voting shares outstanding.

The St. Catherine Hospital Cyberknife Group, LLC was formed on June 10, 2005, for the purpose of owning and operating a stereotactic radiosurgery system that will provide medical, management, and administrative support for licensed physicians to perform procedures on an outpatient basis. St. Catherine Hospital Cyberknife Group, LLC is a limited liability corporation that is owned by CFNI (65% at June 30, 2007 and 2006) and physician investors (35% at June 30, 2007 and 2006). CFNI consolidates St. Catherine Hospital Cyberknife Group, LLC, as CFNI owns a majority of the voting shares outstanding.

The Community Cardiology Center, LLC (CCC) was formed on January 10, 2005, for the purpose of owning and operating a cardiac diagnostic center that provides medical, management, and administrative support for licensed physicians to provide cardiac catheterization and related diagnostic and interventional cardiovascular services on an outpatient basis. CCC is a limited

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization (continued)

liability corporation that is owned by CFNI (40% at June 30, 2007 and 2006) and physician investors (60% at June 30, 2007 and 2006). CFNI consolidates CCC, as CFNI owns a majority of the voting shares outstanding.

CFNI and its wholly owned subsidiaries, except CRI and CVPA Holding Corporation, are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and are, therefore, not subject to tax under present income tax law. CVPA Holding Corporation is tax-exempt under Section 501(c)(2) of the Internal Revenue Code.

The accompanying consolidated financial statements include the accounts and transactions of CFNI and its controlled subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. The majority of CFNI's expenses relate to providing healthcare services.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses. Although estimates are considered to be fairly stated at the time the estimates are made, actual results could differ.

Cash Equivalents

Cash equivalents include investments in securities with a maturity of three months or less when purchased, excluding amounts whose use are limited.

Accounts Receivable

CFNI evaluates the collectibility of its accounts receivable based on the length of time the receivable is outstanding and the anticipated future uncollectible amounts based on historical experience. Accounts receivable are charged to the allowance for doubtful accounts when they are deemed uncollectible. CFNI does not require collateral.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Assets Limited as to Use

Investments in equity securities with readily determinable market values and all investments in debt securities are recorded at fair value based on quoted market prices. Investment return is included in revenues in excess of expenses unless income or loss is restricted by donor or law.

Investments limited as to use include investments internally designated by the Board of Directors for future capital replacement and expansion purposes, which the Board of Directors, at its discretion, may subsequently use for other purposes. Additionally, investments limited as to use include investments externally designated in connection with the terms of debt agreements.

Inventories

Inventories are stated at the lower of cost, based on the first-in, first-out method, or market.

Deferred Costs

Deferred costs consist primarily of expenses incurred in connection with the issuance of bonds. These costs are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Deferred costs are recorded net of accumulated amortization of \$518,000 in 2007 and \$536,000 in 2006.

Acquisition Costs of Initial Residency Agreements

Acquisition costs of initial residency agreements include costs associated with the procurement of initial residency agreements. Amortization of such costs began February 1, 2002, one year following completion of the facility. Acquisition costs are amortized using the straight-line method over eight years.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Land, Buildings, and Equipment

Property and equipment are stated at cost. Depreciation is computed on the straight-line method. Equipment useful lives range from 5 to 20 years. Useful lives for buildings and components range from 15 to 40 years.

Refundable and Unearned Residency Fees

CVI offers a return of capital plan. This plan provides for a refund of advance residency fees of 90% for double occupancy and a refund of 95% for single occupancy upon termination of the residency contract or death and reoccupancy of the vacated or a similar unit before amounts are required to be refunded.

The refundable amount of the residency fees paid in advance by residents of CVI under residency contracts is recorded as deferred revenue and is amortized to income using the straight-line method over the estimated life of the facility. The balance of refundable residency fees at June 30, 2007 and 2006, is \$17,333,184 and \$16,516,973, respectively. The related amortization at June 30, 2007 and 2006, is \$2,792,224 and \$2,377,495, respectively. The nonrefundable portion of the residency fees paid in advance is recorded as deferred revenue and is amortized to income using the straight-line method over the estimated remaining life expectancy of each resident. The balance of nonrefundable residency fees at June 30, 2007 and 2006, is \$1,481,332 and \$1,229,176, respectively. The related amortization at June 30, 2007 and 2006, is \$432,641 and \$355,263, respectively.

Obligation to Provide Future Services

CVI annually calculates the present value of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from admission fees. If the present value of the net cost of future services and use of facilities to be provided to current residents exceeds the deferred revenue from admission fees, a liability (obligation to provide future services) is recorded with a corresponding charge to operations. At June 30, 2007 and 2006, no such excess was identified that would require accrual.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Medical Claims Payable

Medical claims payable represents the estimated liability for MDwise claim expenses both reported, but not paid, and incurred but not reported to the hospital at the balance sheet dates. The estimates used in determining the liabilities for unpaid claims are subject to the effects of trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes that the liabilities for unpaid claims are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. The medical claims payable at June 30, 2007 and 2006, was \$4,691,000 and \$1,738,720, respectively. This amount is included in accrued expenses in the accompanying consolidated balance sheets.

Restricted Net Assets and Contributions

Temporarily and permanently restricted net asset classifications are used to differentiate resources, the use of which is restricted by donors or grantors to a specific time period or purpose, from resources on which no restrictions have been placed or that arise from the general operation of CFNI.

Unconditional promises of others to contribute cash or other assets to CFNI are reported at fair value at the date the promise is made to the extent estimated to be collectible. Contributions received with donor restrictions that limit the use of the contributed assets are reported as increases in temporarily or permanently restricted net assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose for which the contributed assets were restricted is fulfilled, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Net assets released from restrictions that are used for the purchase of fixed assets or for capital purposes, in accordance with the donor restrictions, are reported in the consolidated statements of operations and changes in net assets as other increases in unrestricted net assets. Net assets released from restrictions that are used for operating purposes are reported in the consolidated statements of operations and changes in net assets as unrestricted support.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Resources restricted by donors or grantors for specific operating purposes are reported as unrestricted revenue and other support to the extent they are expended within the same period. Earnings on restricted resources, if also restricted by the donor, are reported as additions to temporarily restricted net assets until such amounts are expended in accordance with the donor's specifications.

Net Patient/Resident Service Revenue

The hospitals and CVI have agreements with third-party payors that provide for payments to the hospitals and CVI at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient/resident service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors, which are subject to audit by administering agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined.

Capitation Revenue

Effective October 1, 2002, St. Catherine Hospital, Inc. began a globally capitated managed Medicaid program. Capitation revenue represents amounts received from an Indiana Medicaid health maintenance organization (the HMO). St. Catherine Hospital, Inc. provides certain medical care services to members of the HMO. For these patients, St. Catherine Hospital, Inc. recognizes prepaid capitation revenue each month during the period in which St. Catherine Hospital, Inc. is obligated to provide medical care services, which is typically one year. Under the terms of these capitation agreements, St. Catherine Hospital, Inc. is obligated to provide specified medically necessary services to covered HMO members without regard to the underlying standard charges or actual costs of such services. This arrangement includes St. Catherine Hospital, Inc.'s assumption of financial responsibility for the appropriate and effective utilization of hospital and other healthcare resources. Capitation received under these agreements was \$21,180,956 and \$13,388,045 for the years ended June 30, 2007 and 2006, respectively. Reserves for incurred, but not reported claims expenses have been provided for based on claims experience.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Revenue in Excess of Expenses

The consolidated statements of operations and changes in net assets include revenue in excess of expenses. Changes in unrestricted net assets, which are excluded from revenue in excess of expenses, include change in ownership interest, contributions of long-lived assets, including assets acquired using contributions, which by donor restriction were to be used for a specific purpose, minimum pension liability adjustment, and cumulative effect of change in accounting principle.

Professional Liability

Malpractice insurance coverage is provided under a claims-made policy. Should the claims-made policy be terminated, the hospitals have the option to purchase insurance for claims having occurred during its term, but reported subsequently. Prior to July 1, 1999, the Indiana Medical Malpractice Act provided for a maximum recovery of \$750,000 per occurrence for professional liability, \$100,000 of which would be paid through the hospitals' malpractice insurance coverage, and the balance would be paid by the State of Indiana Patient Compensation Fund. As of July 1999, the Indiana Medical Malpractice Act provides recovery up to \$1,250,000 per occurrence, with the first \$250,000 covered by the hospitals' insurance.

Community Service and Care to the Indigent

The hospitals provide care to patients who meet certain criteria without charge or at amounts less than established rates. Community service and care to the indigent provided by the hospitals excluded from net patient service revenue was (unaudited) \$20,569,365 and (unaudited) \$13,229,438 in 2007 and 2006, respectively.

Reclassifications

Certain amounts in the 2006 consolidated financial statements have been reclassified to conform to the 2007 presentation. The reclassifications had no effect on net assets or on net assets previously reported.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Adoption of New Accounting Standards

Effective June 30, 2006, CFNI adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations*, an interpretation of FASB's Statement of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 provides guidance on accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Asset retirement obligations include, but are not limited to, certain types of environmental issues that are legally required to be remediated upon an asset's retirement, as well as contractually required asset retirement obligations. FIN 47 provides clarifying guidance on conditional asset retirement obligations. Conditional asset retirement obligations are obligations whose settlement may be conditional on a future event and/or where the timing or method of such settlement may be uncertain. FIN 47 guidance requires such conditional asset retirement obligations to be estimated and recognized. Application of these pronouncements primarily affects CFNI with respect to required future asbestos remediation and execution of easement rights.

The adoption of FIN 47 increased property and equipment, net, and noncurrent liabilities by \$520,206 and \$709,488, respectively, as of June 30, 2006. The cumulative effect of initially applying FIN 47 of \$189,282 has been recognized as a change in accounting principle in the accompanying consolidated statement of operations and changes in net assets as of June 30, 2006.

As discussed in Note 8, effective June 30, 2007, CFNI adopted the recognition and disclosure requirements of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

Restatement of Consolidated Financial Statements

In 2007, CFNI determined that certain investments, previously accounted for as available for sales securities, should instead be accounted for as trading securities. As a result, CFNI restated its June 30, 2006, financial statements to properly account for these investments. As a result, the net change in unrealized (loss) gain in the fair value of investments has been reclassified from below the performance indicator, revenues in excess of expenses, to nonoperating income. Accordingly, the 2006 consolidated statement of operations and changes in net assets has been restated to reflect this change.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

The following financial statement line items for the year ended June 30, 2006, were impacted as a result of the restatement (in thousands):

	<u>Originally Reported</u>	<u>Amount of Adjustment</u>	<u>As Restated</u>
Statement of operations and changes in net assets:			
Revenues in excess of expenses	\$ 10,505	\$ (1,652)	\$ 8,853
Statements of cash flows:			
Revenue in excess of expenses	10,505	(1,652)	8,853
Change in unrealized gains/losses of investments	1,652	(1,652)	—
Assets limited as to use	—	2,829	2,829
Proceeds from sales and maturities of assets limited as to use	76,814	(76,814)	—
Purchases of assets limited as to use	(75,637)	75,637	—

Unrestricted net assets as of June 30, 2006, and the change in unrestricted net assets for the year ended June 30, 2006, did not change as a result of this correction.

3. Contractual Arrangements With Third-Party Payors

The hospitals and CVI provide care to certain patients and residents under Medicare and Medicaid reimbursement arrangements. Services provided under those arrangements are paid at predetermined rates and/or reimbursable costs as defined. Reported costs and/or services provided under certain of the arrangements are subject to audit by the administering agencies. Changes in Medicare and Medicaid programs and reduction in funding levels could have an adverse effect on the future amounts recognized as net patient/resident service revenue.

Provision has been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the hospitals' and CVI's standard charges for services and the estimated payments to be received from the third-party payors.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Contractual Arrangements With Third-Party Payors (continued)

Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Changes in estimates that relate to prior years' payment arrangements, which resulted in an increase in revenue in excess of expenses, amounted to \$6,761,800 and \$3,247,083 for the years ended June 30, 2007 and 2006, respectively. The hospitals' and CVI's concentration of credit risk related to accounts receivable is limited due to the diversity of patients and payors.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to varying interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The percentages of gross patient service revenue applicable to Medicare, Medicaid, and managed care contractual arrangements for the years ended June 30 are as follows:

	<u>2007</u>	<u>2006</u>
Medicare	50%	50%
Medicaid	11	11
Managed care	36	37

At June 30, 2007 and 2006, 22% and 20% of patient accounts receivable, respectively, were due from the Medicare program. At June 30, 2007 and 2006, 6% and 9% of patient accounts receivable, respectively, were due from the Medicaid program.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Assets Limited as to Use and Other Financial Instruments

The composition of assets limited as to use at June 30 is summarized as follows (in thousands):

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
U.S. government obligations	\$ 26,179	\$ 25,913	\$ 24,959	\$ 24,718
Guaranteed investment contracts	6,805	6,805	—	—
Corporate bonds	31,919	31,684	19,930	19,588
Repurchase agreements	4,558	4,558	4,341	4,341
Equities	1,599	1,858	1,059	1,350
Bank certificates of deposit	1,128	1,128	1,074	1,074
Cash equivalents	129,595	129,610	25,805	25,805
	<u>\$ 201,783</u>	<u>\$ 201,556</u>	<u>\$ 77,168</u>	<u>\$ 76,876</u>

The fair value of investments is based on quoted market values.

The composition and presentation of investment income are as follows for the years ended June 30 (in thousands):

	2007	2006
Dividend and interest income	\$ 5,919	\$ 4,495
Net realized losses on the sale on investments	512	(62)
Management fees	—	(49)
	<u>6,431</u>	<u>4,384</u>
Net change in unrealized gain/loss on investments	65	(1,652)
	<u>\$ 6,496</u>	<u>\$ 2,732</u>

Reported as:

	2007	2006
Investment income	\$ 6,431	\$ 4,384
Net change in unrealized gain/loss on investments	65	(1,652)
	<u>\$ 6,496</u>	<u>\$ 2,732</u>

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Assets Limited as to Use and Other Financial Instruments (continued)

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses are reasonable estimates of their fair value due to the short-term nature of those financial instruments. The estimated fair value of long-term debt based on quoted market prices for the same or similar issues was approximately \$347,000,000 and \$256,000,000 at June 30, 2007 and 2006, respectively.

5. Land, Buildings, and Equipment

Land, buildings, and equipment at June 30 consist of the following (in thousands):

	<u>2007</u>	<u>2006</u>
Land and improvements	\$ 36,223	\$ 34,718
Land held for future use	3,170	3,160
Veterans Memorial Park	4,128	4,262
Buildings and components	383,664	362,542
Leasehold improvements	859	859
Furniture and equipment	211,312	199,329
Construction-in-progress	16,067	23,875
	<u>655,423</u>	<u>628,745</u>
Less allowances for depreciation	312,448	278,401
	<u>\$ 342,975</u>	<u>\$ 350,344</u>

CFNI capitalized \$265,842 and \$95,167 of interest paid in 2007 and 2006, respectively.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Long-Term Debt

Long-term debt consisted of the following at June 30 (in thousands):

	2007	2006
Revolving line of credit	\$ —	\$ 5,000
\$8,200,000 commercial draw loan dated June 30, 2006, interest charged at Northern Trust Prime (8.25% at June 30, 2007), payable monthly, all outstanding principal due on June 30, 2008	4,097	4,768
\$965,000 note, dated June 18, 2007, interest charged at Wall Street Journal Prime (8.25% at June 30, 2007), payable monthly, all outstanding principal due on August 18, 2007	965	—
\$5,000,000 note, dated December 31, 2003, payable in monthly installments, with the final installment due January 2, 2009	2,193	3,300
\$4,000,000 note, dated June 23, 2005, payable in monthly installments, with the final installment due June 23, 2010	2,373	3,186
Indiana Health and Educational Facility Financing Authority Variable Rate Demand Revenue Bonds, Series 1985A, maturing 2014; interest rate varies monthly based on prevailing market conditions (3.79% at June 30, 2007)	7,419	8,147
Indiana Health and Educational Facility Financing Authority Taxable Adjustable Rate Hospital Revenue Bonds, Series 2001B, maturing in varying installments through 2025; interest rate varies weekly based on prevailing market conditions (5.35% at June 30, 2007)	23,275	23,875
Indiana Health and Educational Facility Financing Authority Hospital Revenue Bonds, Series 2001A, maturing in varying installments through 2031, bearing interest at fixed rates ranging from 5.5% to 6.375%	55,721	119,976
Indiana Health and Educational Facility Financing Authority Hospital Revenue Bonds, Series 2004A, maturing in varying installments through 2034, bearing interest at fixed rates ranging from 3.5% to 6.25%	60,000	60,000
Indiana Health and Educational Facility Financing Authority Variable Rate Demand Refunding Revenue Bonds, Series 2006A, maturing in varying installments through 2036; interest rate varies based on prevailing market conditions (3.73% at June 30, 2007)	22,460	22,525
Indiana Health and Educational Facility Financing Authority Variable Rate Demand Refunding Revenue Bonds, Series 2006B, maturing in varying installments through 2036; interest rate varies based on prevailing market conditions (3.73% at June 30, 2007)	10,385	—
Indiana Health and Educational Facility Financing Authority Hospital Revenue Bonds, Series 2007, maturing in varying installments through 2037, bearing interest at fixed rates ranging from 5.0% to 5.5%	150,835	—
	339,723	250,777
Less current portion of long-term debt	11,106	9,732
Less bond discount net of amortization	328	3,030
	\$ 328,289	\$ 238,015

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Long-Term Debt (continued)

Effective June 28, 2007, the Indiana Health and Educational Facility Financing Authority (the Authority), on behalf of the Obligated Group, issued its Hospital Revenue Bonds Series in the principal amounts of \$150,835,000. The portion of the proceeds of the bonds was used to refund a percentage of the 2001A outstanding bonds. A loss on early extinguishment of debt of \$5,610,813 was recorded in the 2007 statement of operations and changes in net assets. The remaining proceeds were used for the following: (a) to reimburse CFNI for costs related to certain capital improvements at the Obligated Group members facilities; (b) to pay or reimburse CFNI for costs associated with the issuance of the bonds; and (c) to finance the future construction of projects at the Obligated Group members' facilities.

Effective October 2006, the Authority, on behalf of CVI, issued Variable Rate Demand Revenue Bonds, Series 2001B, in the principal amount of \$10,385,000. The 2006B Bonds are being used to finance the construction of the Assisted Living and Memory Support expansion.

In April 2007, CRI issued a note payable in the amount of \$965,000, which is secured by land. The note bears interest at the prime rate, which is 8.25% at June 30, 2007.

The Series 2006B Bonds were issued in the Floating Rate Mode. The Corporation has an irrevocable letter-of-credit agreement with a bank under the terms of which the bank agrees to make liquidity loans to CVI in the amount necessary to purchase the Series 2006B variable rate demand revenue bonds if not remarketed. The maximum amount of the liquidity loan would be the principal \$10,385,000 at June 30, 2007, plus accrued interest. The liquidity loans are payable upon expiration of the letter of credit, which is May 31, 2011.

Effective in May 2006, the Authority, on behalf of CVI, issued Variable Rate Demand Refunding Revenue Bonds, Series 2006A, in the principal amount of \$22,525,000. The 2006A Bonds were used to refund the Series 1997A and 1997B outstanding bonds. A loss on early extinguishment of debt of \$596,000 was recorded in the 2006 statement of operations and changes in net assets.

The Series 2006A Bonds were issued initially in the Floating Rate Mode. However, CVI entered into a Swap Agreement with a bank to fix CVI's interest cost with respect to the Series 2006A Bonds. Under the terms of the Swap Agreement, CVI will pay the Swap Provider a fixed rate of 4.02% on the outstanding principal amount of the Series 2006A Bonds. The fair value of the swap as of June 30, 2007, is approximately \$241,000. Changes in the fair value of the interest rate swaps are reported as nonoperating gains/losses in the consolidated statements of operations and changes in net assets.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Long-Term Debt (continued)

CVI has an irrevocable letter-of-credit agreement with a bank under the terms of which the bank agrees to make liquidity loans to CVI in the amount necessary to purchase the Series 2006A variable rate demand revenue bonds if not remarketed. The maximum amount of the liquidity loan would be the principal \$22,460,000 at June 30, 2007, plus accrued interest. The liquidity loans are payable upon expiration of the letter of credit, which is May 31, 2011.

In June 2005, St. Catherine Hospital Cyberknife Group, LLC issued a note payable in the amount of \$4,000,000, which is secured by equipment. The note bears interest at 6.25%. In addition, CRI issued a commercial draw loan in the amount of \$8,200,000. The balance as of June 30, 2007, is \$4,097,000. The note bears interest at the prime rate.

In December 2004, CFNI issued a note payable in the amount of \$9,146,341 in connection with its participation in the Indiana Health Facility Financing Authority Series 1985A Demand Revenue Bonds Eligible Equipment Financing Program (the Program). The note payable under the loan agreement bears a rate of interest (3.79% at June 30, 2007), which varies monthly based on certain net costs of the Program as determined by the trustee.

The \$9,146,341 note payable is secured by an irrevocable letter of credit issued by a bank in the ordinary course of business, which is renewable for the term of the note. At June 30, 2007, CFNI has an irrevocable letter of credit in the amount of \$7,973,855.

Effective April 7, 2004, the Authority, on behalf of the Obligated Group, issued its Hospital Revenue Bonds, Series 2004A, in the principal amount of \$60,000,000. The proceeds of the bonds were used to reimburse CFNI for costs related to certain capital improvements at Obligated Group members' facilities and costs associated with the issuance of the bonds.

In March 2004, CFNI modified its existing revolving line of credit, which increased the line from \$30,000,000 to a \$40,000,000 revolving line of credit. The revolving line of credit expires October 17, 2007. The revolving line of credit bears interest at LIBOR plus 1.95%. There are no amounts outstanding on the revolving line of credit at June 30, 2007. The amount outstanding at June 30, 2006, is \$5,000,000.

In December 2003, CFNI issued a note payable in the amount of \$5,000,000, which is secured by equipment. The note bears interest at 5.9%.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Long-Term Debt (continued)

Effective October 17, 2001, the Authority, on behalf of the Obligated Group, issued its Hospital Revenue Bonds, Series 2001A, and Taxable Adjustable Rate Hospital Revenue Bonds, Series 2001B, in the principal amounts of \$120,885,000 and \$25,075,000, respectively. The proceeds of the bonds were used to pay or reimburse CFNI for the following: (a) the costs related to the change in membership interest from ASI to CFNI of St. Mary Medical Center, Inc. and St. Catherine Hospital, Inc.; (b) costs related to certain capital improvements at Obligated Group members' facilities; and (c) costs associated with the issuance of the bonds.

Effective September 1, 1997, the Authority, on behalf of CVI, issued its Revenue Bonds, Series 1997A, and its Variable Rate Demand Revenue Bonds, Series 1997B, in the principal amounts of \$16,230,000 and \$10,000,000, respectively. The 1997A and 1997B Bonds (Series 1997 Bonds) were used to finance the construction for the senior living facility.

Contemporaneously with the issuance of the Series 1997 Bonds, CVI entered into a Master Trust Indenture and a Master Note. The Master Indenture required CVI to comply with certain financial covenants subsequent to the termination of a Credit Support Agreement (see below).

The Series 1997B Bonds were initially issued as a floating rate obligation. However, the Series 1997B Bonds may be converted to either an adjustable or fixed-rate obligation at the discretion of CVI.

The terms of certain loan agreements require that various amounts be held on deposit and that certain financial ratios and debt covenants, including restrictions on transfers of assets, incurrence of additional debt, maintenance of insurance coverage levels, and other transactions, be achieved or complied with. The bonds are collateralized by substantially all of the assets of the Obligated Group.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Long-Term Debt (continued)

Annual principal maturities of long-term debt and sinking fund requirements for each of the next five years are as follows, assuming remarketing of the Series 2001B Adjustable Rate Series and 2006A Variable Rate Demand Refunding Revenue Bonds (in thousands):

2008	\$ 11,106
2009	7,503
2010	6,144
2011	5,641
2012	5,861

The amount of interest paid in 2007 and 2006 was \$14,411,000 and \$15,135,000, respectively.

7. Capital Leases

The hospitals lease equipment principally under capital leases. The lease agreements have terms of up to 5 years with renewable options for additional periods. Future minimum lease payments under capital leases as of June 30, 2007, are as follows (in thousands):

2008	\$ 2,140
2009	2,147
2010	1,303
2011	146
2012	41
Total minimum lease payments	<u>5,777</u>
Less amount representing interest	<u>411</u>
Present value of net minimum lease payments	<u>\$ 5,366</u>

Included in equipment are assets under capital leases, which aggregated approximately \$10,101,346 and \$10,411,000 at June 30, 2007 and 2006, respectively, with accumulated depreciation of approximately \$5,013,788 and \$3,629,000 at June 30, 2007 and 2006, respectively.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Employee Benefit Plans

Defined-Benefit Plan

The Community Hospital maintains a defined-benefit pension plan that is principally limited to certain current and former employees of CFNI who were employed prior to January 1, 2003. The defined plan has been curtailed, and no new participants are permitted. Pension benefits are based on years of service and compensation of employees (as defined) and are actuarially determined. Where applicable, the funding policy is to annually contribute the amount required to comply with ERISA regulations.

Adoption of SFAS No. 158

On June 30, 2007, CFNI adopted the recognition and disclosure provisions of SFAS No. 158. SFAS No. 158 required CFNI to recognize the funded status, which is the difference between the fair value of plan assets and the projected benefit obligations, of its pension plan in the consolidated balance sheet at June 30, 2007, with a corresponding adjustment to unrestricted net assets. The adjustment to unrestricted net assets at adoption represents the net unrecognized actuarial losses and unrecognized prior service costs, all of which were previously netted against the plan's funded status in CFNI's consolidated balance sheets pursuant to the provisions of SFAS No. 87, *Employers' Accounting for Pensions*. These amounts will be subsequently recognized as net periodic pension cost pursuant to the CFNI's historical accounting policy for amortizing such amounts. Furthermore, actuarial gains and losses that arise in subsequent periods are not recognized as net periodic pension cost in the same periods and will be recognized as a component of unrestricted net assets. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in adoption of SFAS No. 158.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Employee Benefit Plans (continued)

The incremental effects of adopting the provisions of SFAS No. 158 on CFNI's consolidated balance sheet at June 30, 2007, are presented in the following table. The adoption of SFAS No. 158 had no effect on CFNI's consolidated revenues in excess of expenses for the year ended June 30, 2007, or for any prior period presented, and it will not affect CFNI's operating results in future periods. The following table illustrates the incremental effect of applying SFAS No. 158 on individual line items in the consolidated balance sheet:

	June 30, 2007		
	Prior to Adopting SFAS No. 158	Effect of Adopting SFAS No. 158	As Reported at June 30 2007
Pension liability	\$ 1,330,564	\$ 16,222,862	\$ 17,553,426
Unrestricted net assets	268,901,487	(16,222,862)	252,678,625

Included in unrestricted net assets at June 30, 2007, are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service costs of \$685,808 and unrecognized actuarial losses of \$15,537,054. The prior service costs and actuarial losses included in unrestricted net assets and expected to be recognized in the net periodic pension cost during the year ended June 30, 2008, are \$97,443 and \$193,668, respectively. Under SFAS No. 158, adjustments to pension liability to reflect funded status are charged or credited to unrestricted net assets. The effect of adopting SFAS No. 158 increased the accrued pension obligation and decreased unrestricted net assets in the amount of \$16,222,862.

The following tables sets forth the funded status of the defined-benefit pension plan and amounts recognized in the consolidated financial statements as of and for the years ended June 30, 2007 and 2006. The disclosure is based on the census data used in the July 1, 2006 and 2005, valuations, respectively.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Employee Benefit Plans (continued)

A summary of changes in the projected benefit obligation and plan assets and the resulting funded status of The Community Hospital's defined-benefit pension plan at June 30 are as follows (in thousands):

	<u>2007</u>	<u>2006</u>
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 128,886	\$ 128,540
Service cost	8,451	8,241
Interest cost	8,268	6,747
Actuarial gains	(8,111)	(9,834)
Benefits paid	(4,394)	(4,808)
Projected benefit obligation at end of year	<u>\$ 133,100</u>	<u>\$ 128,886</u>
Accumulated benefit obligation	<u>\$ 102,792</u>	<u>\$ 95,834</u>

The summary of the changes in plan assets is as follows at June 30 (in thousands):

	<u>2007</u>	<u>2006</u>
Change in plan assets:		
Plan assets at fair value at beginning of year	\$ 96,549	\$ 86,314
Actual return on plan assets	15,891	6,268
Employer contributions	7,500	8,775
Benefits paid	(4,394)	(4,808)
Plan assets at fair value at end of year	<u>\$ 115,546</u>	<u>\$ 96,549</u>
Funded status at end of year	<u>\$ (17,553)</u>	<u>\$ (32,337)</u>

Employer contributions were paid from employer assets for all years presented. All benefits paid under the defined-benefit pension plan were paid from the plan's assets.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Employee Benefit Plans (continued)

A summary of changes in the funded status of the Plan, prepaid pension expense, and net pension expense as of and for the years ended June 30 is as follows:

	2007	2006
Projected benefit obligation in excess of plan assets	\$ (17,553,426)	\$ (32,337,163)
Unrecognized net actuarial losses	15,537,054	32,742,709
Unrecognized prior service cost	685,808	783,251
Prepaid pension expense	(1,330,564)	1,188,797
SFAS No. 158 adjustments to unrestricted net assets	(16,222,862)	n/a
Amounts recognized in consolidated balance sheets	<u>\$ (17,553,426)</u>	<u>n/a</u>

	2007	2006
Components of net periodic benefit cost and other amounts recognized in unrestricted net assets:		
Net periodic benefit cost:		
Service cost	\$ 8,451	\$ 8,241
Interest cost	8,268	6,747
Expected return on plan assets	(8,813)	(8,032)
Amortization of prior service cost	97	97
Amortization of net loss	2,016	2,785
	<u>\$ 10,019</u>	<u>\$ 9,838</u>

The Community Hospital anticipates that contributions (in thousands) of \$7,500 to plan assets will be made during 2008 from employer assets. Expected employee benefit payments for the next five years (in thousands) are \$3,922 in 2008; \$4,464 in 2009; \$6,216 in 2010; \$7,474 in 2011; \$7,602 in 2012; and \$58,270 through 2017.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Employee Benefit Plans (continued)

Assumptions for the defined-benefit pension plan as of June 30 are as follows:

	2007	2006
Benefit costs:		
Weighted-average discount rate	6.35%	5.375%
Assumed rate of return on assets	9.00	9.00
Rate of increase in future compensation	5.00	5.00
Benefit obligation:		
Weighted-average discount rate	6.35%	6.35%
Rate of increase in future compensation	4.50	5.00
Lump sum interest rate	5.50% graded to 6.35% over 5 years	5.50

CFNI evaluates its assumptions regarding the estimated long-term rate of return on plan assets based on historical experience and future expectations of investment returns.

The Community Hospital's target and actual pension asset allocations are as follows:

Asset Category	Strategic Target	Actual Asset Allocation at June 30	
		2007	2006
Equity securities	65.0%	67.28%	63.93%
Debt securities	35.0	31.70	34.59
Cash equivalents	—	1.02	1.48
	100.0%	100.00%	100.00%

Assets of the plan are invested solely for the benefit of plan beneficiaries and participants. Investment decisions are made after giving appropriate consideration to prevailing facts and circumstances that a prudent person acting in a like capacity would use in a similar situation and follow the guidelines of the investment policy statement for the plan. The plan diversifies its investments among various asset classes in order to reduce risk and enhance returns. Long-term weightings for the plan of 45% Large Cap Equity, 10% Small Cap Equity, 10% International Equity, and 35% Fixed Income are within the target asset allocation ranges. The ranges are 36% to 54% for Large Cap Equity, 8% to 12% for Small Cap Equity, 8% to 12% for International

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Employee Benefit Plans (continued)

Equity, and 28% to 42% for Fixed Income investments. All investment returns will be reviewed on an ongoing basis and evaluated with considerations focusing on performance of the individual investments, the ability to exceed the return of the appropriate benchmark index, and the ability to meet or exceed the median performance of a peer group of managers with similar styles of investing.

Defined-Contribution Plans

CFNI sponsors a noncontributory, defined-contribution plan covering substantially all eligible employees of St. Mary Medical Center, Inc. and St. Catherine Hospital, Inc. Total benefit plan expense amounted to approximately \$3,257,360 and \$3,566,162 in 2007 and 2006, respectively.

CVI sponsors a 401(k) defined-contribution plan covering substantially all eligible employees. Employee contributions to the plan are voluntary. Participants may contribute up to 25% of their salary up to the annual tax deferred contribution limit allowed by the Internal Revenue Service. CVI may contribute discretionary amounts to the plan. Discretionary contributions were \$47,180 and \$48,676 in 2007 and 2006, respectively. Total plan expenses amounted to \$2,375 and \$1,305 in 2007 and 2006, respectively.

CFNI sponsors a defined-contribution plan covering substantially all eligible CFNI employees hired on or after January 1, 2003. There are three types of employer contributions under the plan: fixed retirement, discretionary, and matching. The contributions are described and provided to eligible employees as defined in the plan document. Plan expenses were \$1,808,282 and \$1,314,599 in 2007 and 2006, respectively.

9. Commitments

CFNI is committed to constructing additions to its medical facilities, which are expected to be completed in future years. The estimated cost of these commitments is approximately \$32,727,000. Approximately, \$890,000 of this total estimated cost has been incurred as of June 30, 2007.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Litigation

CFNI is from time to time subject to claims and litigation arising in the ordinary course of business. CFNI intends to defend vigorously any such litigation that may arise under all defenses that would be available to CFNI. In the opinion of management, the ultimate outcome of proceedings of which management is aware will not have a material adverse effect on the consolidated financial position or results of operations of CFNI.

Other Financial Information

Report of Independent Auditors on Other Financial Information

The Board of Directors
Community Foundation of Northwest Indiana, Inc.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following other financial information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements of Community Foundation of Northwest Indiana, Inc. and Subsidiaries. Such information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst + Young LLP

September 24, 2007

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Details of Consolidated Balance Sheet

June 30, 2007

	Consolidated	Eliminations	Community Foundation of Northwest Indiana Obligated Group	Community Hospital Cancer Research Foundation, Inc.	Community Resources, Inc.	Community Village, Inc.	Ridgewood Arts Foundation, Inc.	CVPA Holding Corporation	Community Surgery Center LLC	Community Cardiology Center, LLC	St. Catherine Hospital Cyberknife Group, LLC
Assets											
Current assets:											
Cash and cash equivalents	\$ 37,358,948	\$ —	\$ 30,452,649	\$ 329,377	\$ 127,576	\$ 3,017,691	\$ 655,350	\$ 13,508	\$ 53,402	\$ 1,717,851	\$ 991,544
Assets limited as to use internally designated	109,284,732	—	109,284,732	—	—	—	—	—	—	—	—
Patient accounts receivable, net	88,838,447	—	88,331,452	—	—	506,995	—	—	—	—	—
Due from affiliates	—	(6,407,019)	101,750	91,662	—	—	—	12,909	3,451,587	2,545,341	203,770
Inventories	12,290,199	—	12,277,954	—	12,245	—	—	—	—	—	—
Estimated settlements due from third-party payors	19,912,936	—	19,912,936	—	—	—	—	—	—	—	—
Prepaid expenses and other assets	9,618,156	—	8,902,553	2,950	38,369	347,089	191,956	7,236	70,868	51,787	5,348
Total current assets	277,303,418	(6,407,019)	269,264,026	423,989	178,190	3,871,775	847,306	33,653	3,575,857	4,314,979	1,200,662
Assets limited as to use:											
Internally designated	6,630,778	—	—	—	—	6,134,783	—	—	495,995	—	—
Externally designated	85,640,789	—	78,311,656	—	—	7,329,133	—	—	—	—	—
Deferred costs	7,898,873	—	7,313,727	—	—	585,146	—	—	—	—	—
Acquisition costs of initial residency agreements	106,218	—	—	—	—	106,218	—	—	—	—	—
Investment in affiliates	—	(4,676,748)	4,526,748	—	—	—	150,000	—	—	—	—
Land, buildings, equipment, and construction-in-progress, net	342,975,030	(3,801,924)	291,861,929	27,518	7,597,455	34,832,030	1,730	6,781,710	1,304,147	2,028,480	2,341,955
	<u>\$ 720,555,106</u>	<u>\$ (14,885,691)</u>	<u>\$651,278,086</u>	<u>\$ 451,507</u>	<u>\$ 7,775,645</u>	<u>\$ 52,859,085</u>	<u>\$ 999,036</u>	<u>\$ 6,815,363</u>	<u>\$ 5,375,999</u>	<u>\$ 6,343,459</u>	<u>\$ 3,542,617</u>

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Details of Consolidated Balance Sheet (continued)

June 30, 2007

	Consolidated	Eliminations	Community Foundation of Northwest Indiana Obligated Group	Community Hospital Cancer Research Foundation, Inc.	Community Resources, Inc.	Community Village, Inc.	Ridgewood Arts Foundation, Inc.	CVPA Holding Corporation	Community Surgery Center LLC	Community Cardiology Center, LLC	St. Catherine Hospital Cyberknife Group, LLC
Liabilities and net assets											
Current liabilities:											
Accounts payable	\$ 19,422,049	\$ —	\$ 17,199,478	\$ 535	\$ 1,574,177	\$ 264,120	\$ 6,286	\$ 19,017	\$ 330,394	\$ 28,042	\$ —
Accrued expenses	56,024,468	—	53,511,601	—	178,763	1,445,882	553,122	17,637	—	77,513	239,950
Contracts payable	24,086	—	24,086	—	—	—	—	—	—	—	—
Estimated settlements due to third-party payors	5,042,354	—	5,042,354	—	—	—	—	—	—	—	—
Due to affiliates	—	(5,558,343)	5,443,683	21,782	14,802	—	6,090	3,805	—	68,181	—
Current portion of capital leases	1,919,185	—	1,860,130	—	—	—	—	—	43,734	15,321	—
Current portion of notes payable	7,241,430	—	1,379,706	—	5,061,724	—	—	—	—	—	800,000
Current portion of long-term debt	3,864,632	—	3,534,632	—	—	330,000	—	—	—	—	—
Total current liabilities	93,538,204	(5,558,343)	87,995,670	22,317	6,829,466	2,040,002	565,498	40,459	374,128	189,057	1,039,950
Noncurrent liabilities:											
Capital leases, less current portion	3,447,365	—	3,229,951	—	—	—	—	—	173,597	43,817	—
Notes payable, less current portion	9,805,164	—	8,232,284	—	—	—	—	—	—	—	1,572,880
Long-term debt	318,483,799	—	285,968,799	—	—	32,515,000	—	—	—	—	—
Interest rate swap	240,969	—	—	—	—	240,969	—	—	—	—	—
Deferred revenue from advance fees	15,589,651	—	—	—	—	15,589,651	—	—	—	—	—
Due to Community Surgery Center LLC	—	(848,676)	848,676	—	—	—	—	—	—	—	—
Pension liability	17,553,426	—	17,553,426	—	—	—	—	—	—	—	—
Asset retirement obligation	745,080	—	745,080	—	—	—	—	—	—	—	—
	365,865,454	(848,676)	316,578,216	—	—	48,345,620	—	—	173,597	43,817	1,572,880
Minority members interest in subsidiaries	7,106,980	7,106,980	—	—	—	—	—	—	—	—	—
Total liabilities	466,510,638	699,961	404,573,886	22,317	6,829,466	50,385,622	565,498	40,459	547,725	232,874	2,612,830
Net assets:											
Unrestricted	252,678,625	(15,585,652)	245,389,656	377,891	946,179	2,473,463	433,538	6,774,904	4,828,274	6,110,585	929,787
Temporarily restricted	1,263,497	—	1,212,198	51,299	—	—	—	—	—	—	—
Permanently restricted	102,346	—	102,346	—	—	—	—	—	—	—	—
Total net assets	254,044,468	(15,585,652)	246,704,200	429,190	946,179	2,473,463	433,538	6,774,904	4,828,274	6,110,585	929,787
Total liabilities and net assets	\$ 720,555,106	\$ (14,885,691)	\$651,278,086	\$ 451,507	\$ 7,775,645	\$ 52,859,085	\$ 999,036	\$ 6,815,363	\$ 5,375,999	\$ 6,343,459	\$ 3,542,617

Community Foundation of Northwest Indiana, Inc. and Subsidiaries
Details of Consolidated Statement of Operations and Changes in Unrestricted Net Assets

Year Ended June 30, 2007

	Consolidated	Eliminations	Community Foundation of Northwest Indiana Obligated Group	Community Hospital Cancer Research Foundation, Inc.	Community Resources, Inc.	Community Village, Inc.	Ridgewood Arts Foundation, Inc.	CVPA Holding Corporation	Community Surgery Center LLC	Community Cardiology Center, LLC	St. Catherine Hospital Cyberknife Group, LLC
Revenue											
Net patient and resident service revenue	\$ 586,478,201	\$ (1,870,405)	\$ 550,026,154	\$ -	\$ -	\$ 12,521,907	\$ -	\$ -	\$ 17,794,881	\$ 8,005,664	\$ -
Capitation program revenue	21,180,956	-	21,180,956	-	-	-	-	-	-	-	-
Other	17,727,384	(6,448,412)	19,397,818	589,548	431,089	108,036	1,631,861	345,452	-	-	1,671,992
Total operating revenue	625,386,541	(8,318,817)	590,604,928	589,548	431,089	12,629,943	1,631,861	345,452	17,794,881	8,005,664	1,671,992
Expenses											
Salaries	243,307,507	-	231,932,552	151,425	184,907	5,122,137	858,199	135,984	3,756,082	1,166,221	-
Employee benefits	59,593,182	-	56,836,665	40,262	24,057	1,165,133	156,681	65,439	994,921	310,024	-
Medical fees	4,415,181	-	4,415,181	-	-	-	-	-	-	-	-
Medical and other supplies	124,774,329	(24,350)	118,161,095	16,601	2,731	1,152,110	159,165	50,049	3,427,557	1,829,371	-
Outside services	46,183,305	(4,550,097)	46,007,580	105,400	24,305	1,215,657	91,893	15,539	2,299,247	292,098	681,683
Interest	14,457,201	-	13,065,220	327	-	1,169,558	-	-	15,496	6,017	200,583
Provision for uncollectible accounts	22,496,744	-	21,700,088	-	-	-	-	-	759,387	37,269	-
Depreciation and amortization	41,470,371	(10,436)	37,808,891	3,361	7,977	1,628,009	1,056	271,884	404,122	565,150	790,357
Loss on early extinguishment of debt	5,610,813	-	5,610,813	-	-	-	-	-	-	-	-
Other	54,022,524	(825,607)	49,944,376	452,799	236,630	1,398,041	560,643	293,702	978,761	399,505	583,674
Total expenses	616,331,157	(5,410,490)	585,482,461	770,175	480,607	12,850,645	1,827,637	832,597	12,635,573	4,605,655	2,256,297
Operating income	9,055,384	(2,908,327)	5,122,467	(180,627)	(49,518)	(220,702)	(195,776)	(487,145)	5,159,308	3,400,009	(584,305)
Nonoperating											
Investment income	6,430,998	49,518	5,543,028	5,019	-	676,432	13,641	8,548	50,057	40,618	44,137
Unrealized investment income	64,938	-	81,027	-	-	(16,089)	-	-	-	-	-
Changes in fair value of interest rate swap	(147,777)	-	-	-	-	(147,777)	-	-	-	-	-
Total nonoperating	6,348,159	49,518	5,624,055	5,019	-	512,566	13,641	8,548	50,057	40,618	44,137
Revenue in excess of expenses before adjustment for minority members interest in net income of subsidiaries	15,403,543	(2,858,809)	10,746,522	(175,608)	(49,518)	291,864	(182,135)	(478,597)	5,209,365	3,440,627	(540,168)
Adjustment for minority members interest in net income of subsidiaries	(5,174,495)	(5,174,495)	-	-	-	-	-	-	-	-	-
Revenue in excess of (less than) expenses	10,229,048	(8,033,304)	10,746,522	(175,608)	(49,518)	291,864	(182,135)	(478,597)	5,209,365	3,440,627	(540,168)
Other changes in unrestricted new assets:											
Minimum pension liability adjustment	(16,222,862)	-	(16,222,862)	-	-	-	-	-	-	-	-
Net assets transferred (to) from affiliates	-	3,599,123	(1,336,779)	-	-	-	345,000	991,780	(1,794,767)	(1,342,850)	(461,507)
Net change in ownership interest	39,682	39,682	-	-	-	-	-	-	-	-	-
Net assets released from restrictions used for capital purposes	561,330	-	561,330	-	-	-	-	-	-	-	-
Transfer from minority member	-	4,789,722	-	-	-	-	-	-	(2,526,943)	(2,014,275)	(248,504)
(Decrease) increase in unrestricted net assets before cumulative effect of change in accounting principle	(5,392,802)	395,223	(6,251,789)	(175,608)	(49,518)	291,864	162,865	513,183	887,655	83,502	(1,250,179)
Cummulative effect of change in accounting principle	-	-	-	-	-	-	-	-	-	-	-
(Decrease) increase in unrestricted net assets	\$ (5,392,802)	\$ 395,223	\$ (6,251,789)	\$ (175,608)	\$ (49,518)	\$ 291,864	\$ 162,865	\$ 513,183	\$ 887,655	\$ 83,502	\$ (1,250,179)

Community Foundation of Northwest Indiana Obligated Group

Details of Combined Balance Sheet

June 30, 2007

	Combined	Eliminations	Community Foundation of Northwest Indiana, Inc.	Munster Medical Research Foundation, Inc. - The Community Hospital	St. Catherine Hospital, Inc.	St. Mary Medical Center, Inc.
Assets						
Current assets:						
Cash and cash equivalents	\$ 30,452,649	\$ -	\$ 7,474,006	\$ 9,327,504	\$ 9,612,838	\$ 4,038,301
Assets limited as to use internally designated	109,284,732	-	103,492,175	5,792,557	-	-
Patient accounts receivable, net	88,331,452	-	-	50,683,985	15,192,723	22,454,744
Due from affiliates	101,750	(20,682,625)	18,511,248	2,219,577	53,550	-
Inventories	12,277,954	-	-	5,172,717	2,878,026	4,227,211
Estimated settlements due from third-party payors	19,912,936	-	-	1,943,459	15,471,139	2,498,338
Prepaid expenses and other assets	8,902,553	-	1,533,189	2,931,046	1,929,853	2,508,465
Total current assets	269,264,026	(20,682,625)	131,010,618	78,070,845	45,138,129	35,727,059
Assets limited to use externally designated	78,311,656	-	78,311,656	-	-	-
Deferred costs	7,313,727	-	7,313,727	-	-	-
Investment in affiliates	4,526,748	-	1,530,916	2,391,477	604,355	-
	90,152,131	-	87,156,299	2,391,477	604,355	-
Land, buildings, equipment, and construction-in-progress, net	291,861,929	-	64,094,692	116,839,175	26,486,034	84,442,028
	\$ 651,278,086	\$ (20,682,625)	\$ 282,261,609	\$ 197,301,497	\$ 72,228,518	\$ 120,169,087

Community Foundation of Northwest Indiana Obligated Group

Details of Combined Balance Sheet (continued)

June 30, 2007

	Combined	Eliminations	Community Foundation of Northwest Indiana, Inc.	Munster Medical Research Foundation, Inc. - The Community Hospital	St. Catherine Hospital, Inc.	St. Mary Medical Center, Inc.
Liabilities and net assets						
Current liabilities:						
Accounts payable	\$ 17,199,478	\$ -	\$ 2,410,059	\$ 7,813,292	\$ 2,774,040	\$ 4,202,087
Accrued expenses	53,511,601	-	5,085,099	26,846,743	13,296,397	8,283,362
Contracts payable	24,086	-	24,086	-	-	-
Estimated settlements due to third-party payors	5,042,354	-	-	4,074,540	-	967,814
Due to affiliates	5,443,683	(20,682,625)	91,662	7,072,400	10,595,387	8,366,859
Current portion of capital leases	1,860,130	-	-	852,602	454,494	553,034
Current portion of notes payable	1,379,706	-	779,706	-	-	600,000
Current portion of long-term debt	3,534,632	-	3,534,632	-	-	-
Total current liabilities	87,995,670	(20,682,625)	11,925,244	46,659,577	27,120,318	22,973,156
Noncurrent liabilities:						
Capital leases, less current portion	3,229,951	-	-	1,418,543	833,275	978,133
Notes payable, less current portion	8,232,284	-	6,639,655	-	-	1,592,629
Long-term debt	285,968,799	-	285,968,799	-	-	-
Due to Community Surgery Center LLC	848,676	-	-	848,676	-	-
Noncurrent pension liability	17,553,426	-	-	17,553,426	-	-
Asset retirement obligation	745,080	-	-	279,629	465,451	-
Total noncurrent liabilities	316,578,216	-	292,608,454	20,100,274	1,298,726	2,570,762
Total liabilities	404,573,886	(20,682,625)	304,533,698	66,759,851	28,419,044	25,543,918
Net assets:						
Unrestricted	245,389,656	-	(22,394,793)	129,718,117	43,567,495	94,498,837
Temporarily restricted	1,212,198	-	122,704	721,183	241,979	126,332
Permanently restricted	102,346	-	-	102,346	-	-
	246,704,200	-	(22,272,089)	130,541,646	43,809,474	94,625,169
Total net assets	\$ 651,278,086	\$ (20,682,625)	\$ 282,261,609	\$ 197,301,497	\$ 72,228,518	\$ 120,169,087

Community Foundation of Northwest Indiana Obligated Group

Details of Combined Statement of Operations and Changes in Unrestricted Net Assets

Year Ended June 30, 2007

	Combined	Eliminations	Community Foundation of Northwest Indiana, Inc.	Munster Medical Research Foundation, Inc. - The Community Hospital	St. Catherine Hospital, Inc.	St. Mary Medical Center, Inc.
Revenue						
Net patient service revenue	\$ 550,026,154	\$ -	\$ -	\$ 299,900,001	\$ 108,187,917	\$ 141,938,236
Capitation program revenue	21,180,956	-	-	-	21,180,956	-
Other	19,397,818	(1,387,075)	5,335,628	11,415,917	2,628,570	1,404,778
Total operating revenue	590,604,928	(1,387,075)	5,335,628	311,315,918	131,997,443	143,343,014
Expenses						
Salaries	231,932,552	-	16,981,456	122,584,467	43,703,894	48,662,735
Employee benefits	56,836,665	-	1,444,010	32,798,244	10,221,147	12,373,264
Medical fees	4,415,181	-	-	1,602,729	2,145,437	667,015
Medical and other supplies	118,161,095	-	605,189	62,577,325	22,463,755	32,514,826
Outside services	46,007,580	(22,140)	(27,419,808)	34,956,036	18,232,340	20,261,152
Interest	13,065,220	-	4,474,786	874,148	2,632,724	5,083,562
Provision for uncollectible accounts	21,700,088	-	-	10,844,198	3,714,750	7,141,140
Depreciation and amortization	37,808,891	-	7,970,977	17,364,838	4,389,630	8,083,446
Loss on early extinguishment of debt	5,610,813	-	5,610,813	-	-	-
Other	49,944,376	(1,364,935)	4,977,104	15,400,209	23,426,912	7,505,086
Total expenses	585,482,461	(1,387,075)	14,644,527	299,002,194	130,930,589	142,292,226
Operating income	5,122,467	-	(9,308,899)	12,313,724	1,066,854	1,050,788
Nonoperating						
Unrealized investment income - gain (loss)	81,027	-	81,027	-	-	-
Investment income	5,543,028	-	4,015,193	772,498	296,592	458,745
Total nonoperating	5,624,055	-	4,096,220	772,498	296,592	458,745
Revenue in excess (less than) of expenses	10,746,522	-	(5,212,679)	13,086,222	1,363,446	1,509,533

Community Foundation of Northwest Indiana Obligated Group

Details of Combined Statement of Operations and Changes in Unrestricted Net Assets (continued)

Year Ended June 30, 2007

	Combined	Eliminations	Community Foundation of Northwest Indiana, Inc.	Munster Medical Research Foundation, Inc. - The Community Hospital	St. Catherine Hospital, Inc.	St. Mary Medical Center, Inc.
Other changes in unrestricted net assets:						
Minimum pension liability adjustment	\$ (16,222,862)	\$ -	\$ -	\$ (16,222,862)	\$ -	\$ -
Net assets transferred (to) from affiliates	(1,336,779)	-	(115,014,676)	(3,424,794)	39,851,234	77,251,457
Other transfers	-	-	-	-	-	-
Net assets released from restrictions used for capital purposes	561,330	-	9,377	392,093	148,784	11,076
Increase in unrestricted net assets before cumulative effect of change in accounting principle	(6,251,789)	-	(120,217,978)	(6,169,341)	41,363,464	78,772,066
Change in accounting principle	-	-	-	-	-	-
Increase in unrestricted net assets	\$ (6,251,789)	\$ -	\$ (120,217,978)	\$ (6,169,341)	\$ 41,363,464	\$ 78,772,066